

Energy Situation Analysis Report

Last Updated: October 8, 2002

Next Update: October 10, 2002

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Latest Oil Market Developments

West Texas Intermediate (WTI) front month crude oil futures on the New York Mercantile Exchange (NYMEX) closed at \$29.48 per barrel Tuesday (10/08/02), little changed (down 16 cents per barrel) from Monday's close. WTI is down about \$1 per barrel from a week ago. U.S. Gulf Coast oil operations are recovering rapidly from disruptions caused by Tropical Storm Isidore (two weeks ago), and Hurricane Lili (last week), both of which interfered with Gulf of Mexico oil operations and the Louisiana Offshore Oil Port (LOOP). [more...](#)

Latest U.S. Weekly EIA Petroleum Information

The U.S. average retail price for regular gasoline increased over the last week, rising by 2.6 cents per gallon as of October 7 to end at 143.9 cents per gallon, the highest price since September 2001 and up 8.7 cents per gallon higher than last year at this time. The rise in retail gasoline prices can be attributed in large part to higher crude oil prices. Retail diesel fuel prices increased for the eighth week in a row, rising by 2.2 cents per gallon to a national average of 146.0 cents per gallon as of October 7. U.S. diesel fuel prices have risen 15.7 cents per gallon since they started increasing eight weeks ago. [more...](#)

World Oil Market Highlights

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds about 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries. [more...](#)

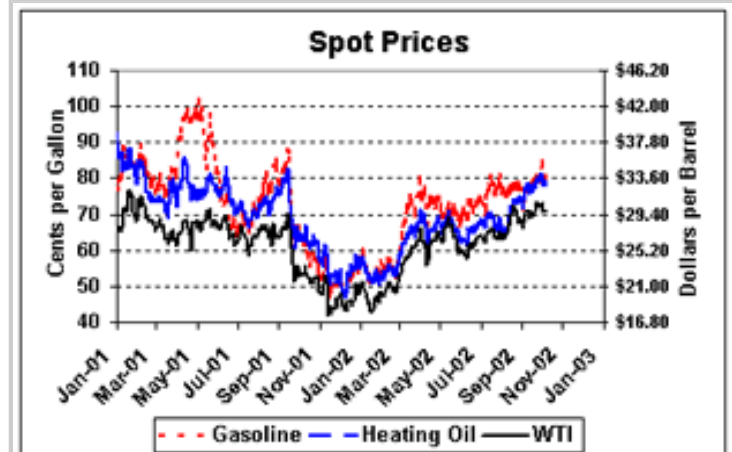
Latest U.S. Weekly Natural Gas Information

Spot natural gas prices at most major market locations moved down yesterday (10/07/02) as production resumed in the Gulf of Mexico following last week's hurricane. The Department of Interior's Minerals Management

Energy Prices*

Petroleum Futures	10/07/02 10/04/02 Change		
WTI (\$/Bbl)	29.64	29.62	+0.02
Gasoline (c/gallon)	80.47	79.72	+0.75
Heating Oil (c/gallon)	79.16	79.19	-0.03
Natural Gas (\$/MMBtu)			
Henry Hub	3.77	3.85	-0.08
California	3.33	3.07	+0.26
New York City	4.12	4.16	-0.04
Electricity (\$/Megawatthour)			
COB	31.16	30.25	+0.91
PJM West	30.00	35.92	-5.92
NEPOOL	47.50	49.88	-2.38
Average	34.79	34.90	-0.11

[*Definitions](#)

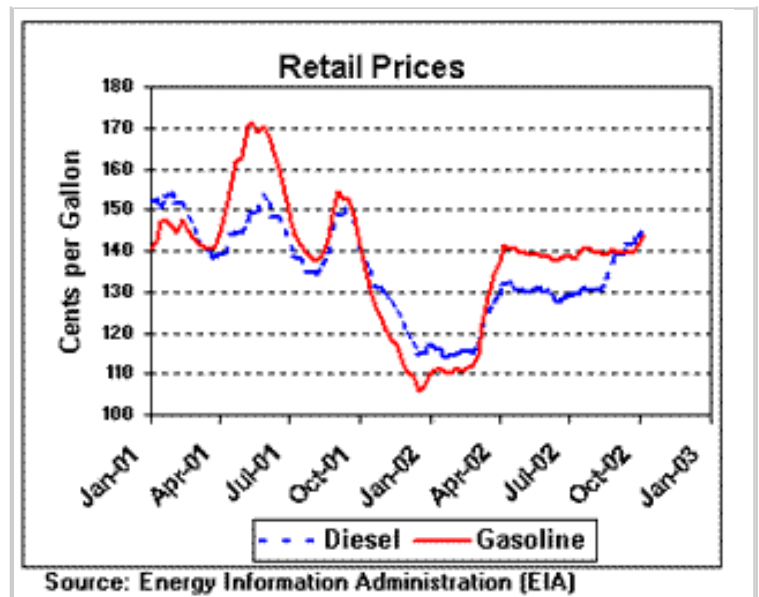


Source: Closing quote as reported by Reuters News Service

Service (MMS) reported that almost 75% of the 9.9 Bcf /d of natural gas production curtailed on Friday in the Gulf was returned to operation yesterday. Spot prices at the Henry Hub returned to the pre-hurricane level of \$3.77 per million Btu (MMBtu) yesterday [more...](#)

Latest U.S. Coal Information

The spot coal prices tracked by EIA strengthened slightly for the week ended October 4, after three weeks of stagnation (graph below). The lack of life in coal markets recently reflects the continuing uncertainty over the direction of coal prices. Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$17.00 and \$11.00 per short ton, respectively. [more...](#)



Latest U.S. Electricity Information

In the Midwest, cooler weather and lower demand caused electricity prices to decrease 42%. At PJM West, prices continued to decline with cooler weather and lower demand. Prices decreased 46% from \$55.96 per megawatthour on October 1 to \$30.00 per megawatthour on October 7, 2002. Southeast spot prices decreased 30% from the 7-day high of \$44.39 per megawatthour on October 3 to \$30.90 per megawatthour on October 7, 2002. [more...](#)

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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/archive/esararchive.html>

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Latest Oil Market Developments

(updated October 8, 2002)

West Texas Intermediate (WTI) front month (November) crude oil futures on the New York Mercantile Exchange (NYMEX) closed at \$29.48 per barrel Tuesday (10/08/02), little changed (down 16 cents per barrel) from Monday's close. WTI is down about \$1 per barrel from a week ago. U.S. Gulf Coast oil operations are recovering rapidly from disruptions caused by Tropical Storm Isidore (two weeks ago), and Hurricane Lili (last week), both of which interfered with offshore oil operations and the Louisiana Offshore Oil Port (LOOP). Although the storms caused no permanent damage to the U.S. oil industry, crude stocks are expected by many analysts to be reported lower due to storm disruptions when the American Petroleum Institute (API) and Energy Information Administration (EIA) release their weekly inventory numbers late today and tomorrow morning, respectively. Oil markets also continue to watch the situation in the Middle East, including the Congressional debate on authorizing the possible use of force against Iraq, U.N. Security Council discussions on an Iraq resolution, and President Bush's speech on Iraq last night (see below).

In general, oil prices have been driven sharply higher (up around 50%) since the beginning of 2002 by several factors, including: 1) significant cuts in OPEC production quotas during 2001, including an OPEC agreement with top non-OPEC oil exporting countries at the end of the year (note: increased OPEC production above quota levels has mitigated this somewhat in recent months); 2) tensions in the Middle East, particularly speculation over the possibility of U.S. military action against Iraq (the so-called "war premium"); and 3) a steep slide in U.S. crude oil inventories.

Topics affecting **world oil markets** include:

- Oil prices fell on Monday night and early Tuesday following President Bush's speech on Iraq, in which he said, "If we have to act, we will take every precaution that is possible. We will plan carefully...We will act with allies at our side." Meanwhile, Congress is scheduled to begin debate on the issue today.
- The Department of Interior's Minerals Management Service (MMS) estimates that, as of Monday (10/7/02), 60% of Gulf of Mexico crude production that had been shut in due to Hurricane Lili was now back up and running. At its peak, 1.6 million barrels per day (bbl/d) in oil production capacity was shut down, but oil companies hope to have everything back to normal shortly (the MMS also reports that 75% of natural gas production is back in operation).
- Discussions continue in the U.N. Security Council on a new resolution concerning Iraq. Russia's Deputy Foreign Minister, Yuri Fedotov, said this morning that his country supported a proposed "two-tier" resolution by France, which would allow Iraq a chance to cooperate with U.N. weapons

inspectors before considering the possible use of force if Iraq does not comply fully. Fedotov said that U.S. proposals contained "knowingly unfulfillable demands."

- French and Yemeni experts began an investigation into the cause of an explosion Sunday on the French-flagged supertanker, Limburg. The ship was preparing to enter the Yemeni port of Mina al-Dabah when the explosion occurred. U.S. investigators reportedly also had arrived in Yemen to participate in the investigation and to look for any similarities to the October 2000 suicide attack on the U.S. destroyer Cole in Yemen's main port of Aden.
- A survey by Reuters indicated that OPEC oil production in September rose by 500,000 bbl/d, with production over official OPEC quota levels at 2.33 million bbl/d. Meanwhile, after dropping an illegal surcharge, Iraq increased its oil exports under the U.N. "oil-for-food" program by 320,000 bbl/d from August, to 1.1 million bbl/d. EIA estimates that "OPEC-10" (i.e., excluding Iraq) oil production this quarter will exceed official quota levels by 2.28 million bbl/d.
- Unrest continues in Venezuela, with a large anti-government rally set for October 10 and unions calling for a national shutdown to demand President Chavez's resignation. Yesterday (10/7/02), Venezuelan authorities said that they were investigating an alleged coup plot against Chavez, who was overthrown briefly last April.
- As of October 7, 2002, the U.S. Strategic Petroleum Reserve (SPR) contained 586.2 million barrels of oil. The SPR has a maximum drawdown capability of 4.3 million bbl/d for 90 days, with oil beginning to arrive in the marketplace 15 days after a presidential decision to initiate a drawdown. The SPR drawdown rate declines to 3.1 million bbl/d from days 91-120, to 2.1 million bbl/d for days 121-150, and to 1.2 million bbl/d for days 151-180.

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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/latem.html>

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Latest U.S. Weekly EIA Petroleum Information

(last update: October 8, 2002)

Petroleum Inventories

Tropical Storm Isidore's effect on petroleum was mostly seen in a decline in U.S. commercial crude oil inventories (excluding those in the Strategic Petroleum Reserve) of 10.0 million barrels last week. Commercial crude oil inventories are now at the lowest absolute level since at least 1982, and nearly 34 million barrels below the level last year at this time. In PADD II (Midwest), crude oil inventories fell by 1.1 million barrels last week and are once again at the lowest level since at least 1990. Distillate fuel inventories rose by 0.3 million barrels last week, while motor gasoline inventories increased by 1.2 million barrels.

Even ignoring last week's sharp added downward pull from Tropical Storm Isidore, U.S. crude oil inventories were already 24 million barrels below last year and well below the normal range as of September 20. Last week's 10 million barrel decline continues a downward trend, with U.S. crude oil inventories plunging from high levels at the end of February 2002, some 44 million barrels over year-ago levels, to current levels of 275 million barrels, representing a decline of 52 million barrels in just seven months, a near record drop. (The only two periods with a sharper drop over a seven month period were in December 1990/January 1991 following Iraq's invasion of Kuwait and December 1999, when similarly deep OPEC production cuts combined with preparations for Y2K to sharply draw down primary inventories.)

Petroleum Imports

U.S. crude oil imports last week averaged 8.5 million barrels per day, down more than 400,000 barrels per day compared to the previous week, largely due to a 700,000 barrel per day decline in imports into the Gulf Coast. Here too, this decline could reasonably be attributed to Tropical Storm Isidore. During the most recent four weeks, crude oil imports have averaged 8.6 million barrels per day, or about 700,000 barrels per day less than during the same four-week period last year. Total motor gasoline imports (including both finished gasoline and gasoline blending components) averaged about 800,000 barrels per day last week, while distillate fuel imports remained relatively low, averaging about 100,000 barrels per day.

Refinery Inputs and Production

U.S. crude oil refinery inputs averaged 14.9 million barrels per day during the week ending September 27, down nearly 300,000 barrels per day from the previous week. Most of the decline was in PADD II (Midwest) and PADD III (Gulf Coast), partly due to temporary outages related to Tropical Storm Isidore. Crude oil refinery inputs in the Gulf Coast averaged less than 7 million barrels per day for the third week in a row. Still, over the last four weeks, crude oil refinery inputs have averaged over 100,000 barrels per day more than last year at this time. Refinery production for motor gasoline, jet fuel, and distillate fuel all declined last week compared to the previous week.

Petroleum Demand

Total product supplied over the last four-week period averaged over 19.3 million barrels per day, or about 1.2% more than the level last year. Over the last four weeks, motor gasoline is up 1.8%, kerosene-jet fuel demand up 4.1%, and distillate fuel demand down 1.5% compared to the same four-week period last year.

Spot Prices

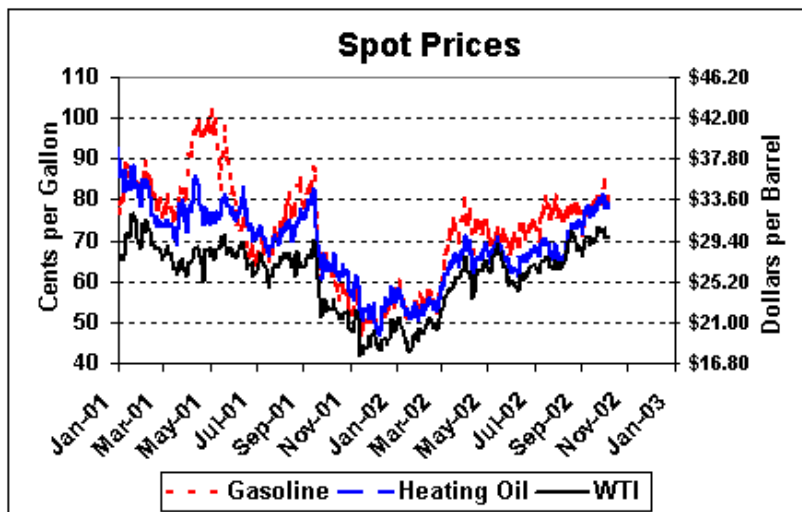
The average world crude oil price on October 4, 2002 was \$27.44 per barrel, down \$0.12 from the previous week but \$7.01 per barrel more than last year. West Texas Intermediate (WTI) was \$29.65 per barrel on October 4, 2002, \$0.88 less than last week and \$7.33 per barrel higher than last year. The spot price for conventional gasoline in the New York Harbor was 80.10 cents per gallon, up 0.05 cent from last week and 17.22 cents per gallon higher than a year ago. The spot price for low sulfur diesel fuel in the New York Harbor was 80.18 cents per gallon, 1.02 cents below last week and 15.23 cents per gallon more than last year.

Retail Gasoline and Diesel Fuel Prices

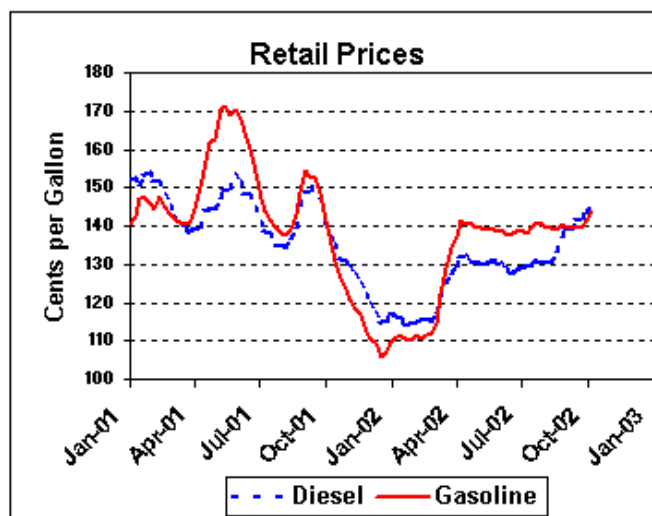
The U.S. average retail price for regular gasoline increased over the last week, rising by 2.6 cents per gallon as of October 7 to end at 143.9 cents per gallon, the highest price since September 24, 2001 and 8.7 cents per gallon higher than last year. The rise in retail prices can partly be attributed to supply concerns and the war premium. Retail diesel fuel prices increased for the eighth week in a row, rising by 2.2 cents per gallon to a national average of 146.0 cents per gallon as of October 7, the highest price since September 24, 2001. U.S. diesel fuel prices have risen 15.7 cents per gallon since they started increasing eight weeks ago, and with distillate stocks expected to remain on the low edge of the normal range throughout the winter, it is unlikely that prices will soften. Typically, diesel prices are higher in the fall and winter as demand increases due to heating and agricultural uses, putting pressure on the heating oil and diesel fuel markets. Retail diesel prices were up throughout most of the country, with the largest price increases occurring on the East Coast, which each saw prices rise by 2.8 cents per gallon to end at 144.8 cents per gallon. Prices on the West Coast fell by 0.2 cent per gallon to end at 153.4 cents per gallon.

U.S. Petroleum Prices

(updated October 8, 2002)



Source: Closing quote as reported by Reuters News Service



Source: Energy Information Administration (EIA)

Crude Oil and Oil Products Price Table

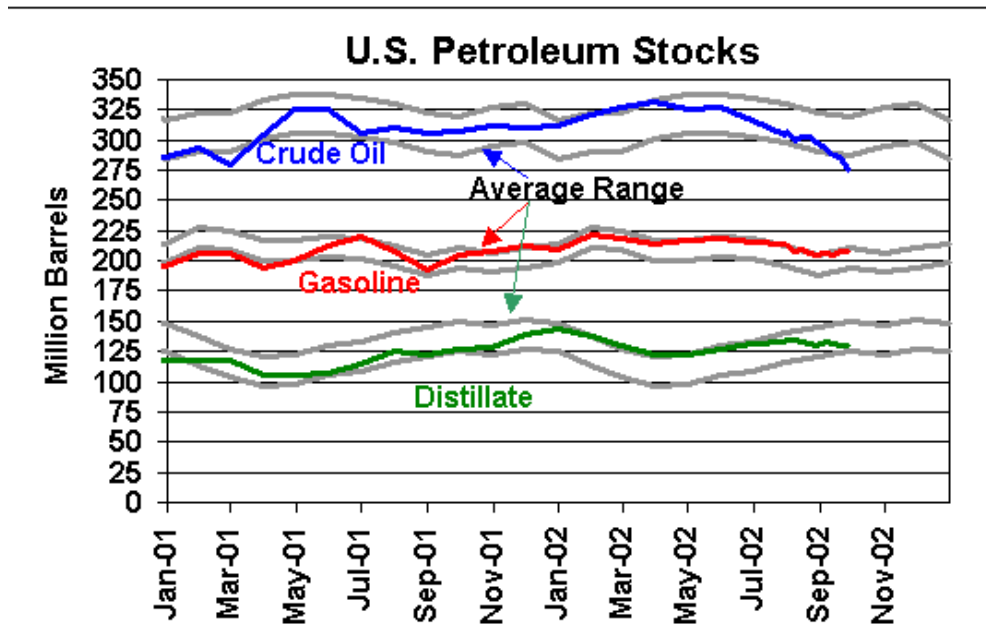
Date	WTI Crude Oil		Gasoline		Heating Oil		Kerojet	Propane		EIA Weekly Retail	
	Spot	Futures	Spot	Futures	Spot	Futures	Spot	Spot	Spot	US Average	
	Cushing		NYH		NYH		NYH	Mt. Belvieu	Conway	Gasoline	Diesel
	\$/bbl	\$/bbl	cents per gallon		cents per gallon		¢/gal	cents per gallon		cents per gallon	
8/20/2002	\$30.12	\$30.11	77.70	80.03	72.20	73.80	76.95	42.13	42.88		
8/21/2002	\$30.37	\$29.24	78.19	80.66	74.00	75.42	79.05	42.88	43.63		
8/22/2002	\$30.11	\$28.84	77.08	79.66	73.91	74.82	78.12	43.07	43.82		
8/23/2002	\$29.99	\$28.63	76.85	79.52	73.40	73.90	77.88	43.38	43.32		
8/26/2002	\$29.23	\$29.28	79.05	82.11	73.55	75.11	78.13	44.75	43.88	140.3	137.0
8/27/2002	\$28.84	\$28.83	78.85	81.80	73.88	75.01	78.25	44.75	43.88		
8/28/2002	\$28.31	\$28.34	76.68	80.18	73.57	74.45	77.73	44.88	43.25		
8/29/2002	\$28.83	\$28.92	77.87	81.32	74.20	75.39	78.43	45.00	43.25		
8/30/2002	\$28.97	\$28.98	77.32	81.42	74.93	74.82	79.03	45.19	43.13		
9/2/2002	NA	NA	NA	NA	NA	NA	NA	NA	NA	139.4	138.8
9/3/2002	\$27.76	\$27.79	71.18	74.52	71.55	72.81	75.68	44.13	42.38		
9/4/2002	\$28.28	\$28.27	73.35	76.22	73.78	75.03	78.15	45.01	42.88		
9/5/2002	\$29.06	\$28.98	75.18	77.66	76.03	77.31	80.18	45.63	44.38		
9/6/2002	\$29.51	\$29.61	76.68	78.63	77.00	78.39	81.15	46.75	45.50		
9/9/2002	\$29.80	\$29.73	77.20	79.00	77.55	78.62	82.05	46.82	45.75	139.5	139.6
9/10/2002	\$29.62	\$29.73	77.70	79.94	77.85	79.27	82.20	47.57	46.25		
9/11/2002	\$29.77	\$29.77	77.60	80.55	77.65	78.97	82.20	47.38	46.00		
9/12/2002	\$28.95	\$28.85	75.55	78.54	75.75	76.58	80.10	46.88	45.25		
9/13/2002	\$29.83	\$29.81	77.75	80.56	77.75	78.67	82.10	47.38	45.94		
9/16/2002	\$29.14	\$29.67	77.30	79.36	76.20	78.37	80.80	47.44	45.63	140.1	141.4
9/17/2002	\$29.08	\$29.08	77.50	77.63	76.85	77.23	81.53	46.50	45.00		
9/18/2002	\$29.57	\$29.48	79.10	79.82	77.90	78.91	82.83	47.57	46.44		
9/19/2002	\$29.49	\$29.50	79.30	80.08	77.85	78.81	82.63	47.57	46.32		
9/20/2002	\$29.65	\$29.61	79.78	81.41	77.45	78.70	82.00	47.88	47.25		
9/23/2002	\$30.85	\$30.71	79.95	84.27	79.00	80.57	83.05	48.75	47.75	139.5	141.7
9/24/2002	\$30.79	\$30.77	80.85	82.92	79.40	80.70	83.53	48.63	47.75		
9/25/2002	\$30.69	\$30.64	80.63	81.69	79.70	80.63	83.68	47.51	46.69		
9/26/2002	\$30.31	\$30.41	78.80	80.81	79.20	80.40	83.10	47.50	46.75		
9/27/2002	\$30.53	\$30.54	80.05	81.43	79.20	80.38	83.20	47.82	46.88		
9/30/2002	\$30.59	\$30.45	79.73	81.35	79.18	80.18	83.06	48.13	47.00	141.3	143.8
10/1/2002	\$30.71	\$30.83	83.03	82.71	81.05	82.04	85.43	48.75	47.75		
10/2/2002	\$30.59	\$30.49	84.53	82.50	80.20	81.35	86.83	48.25	47.44		
10/3/2002	\$29.73	\$29.76	80.25	80.25	77.72	79.43	83.10	47.50	46.25		
10/4/2002	\$29.65	\$29.62	80.10	79.72	79.20	79.19	83.18	47.57	46.00		
10/7/2002	\$29.65	\$29.64	80.80	80.47	78.08	79.16	82.78	47.57	46.25	143.9	146.0

Source: Spot and futures closing quotes as reported by Reuters News Service, retail prices reported by EIA

U.S. Petroleum Supply

(Thousand Barrels per Day)	Four Weeks Ending		vs. Year Ago	
	9/27/2002	9/27/2001	Diff.	% Diff.
Refinery Activity				
Crude Oil Input	15,165	15,023	142	0.9%
Operable Capacity	16,800	16,521	279	1.7%
Operable Capacity Utilization (%)	91.4%	92.3%	-0.9%	
Production				
Motor Gasoline	8,445	8,374	71	0.9%
Jet Fuel	1,568	1,433	135	9.4%
Distillate Fuel Oil	3,573	3,627	-54	-1.5%
Imports				
Crude Oil (incl. SPR)	8,617	9,342	-725	-7.8%
Motor Gasoline	813	878	-65	-7.4%
Jet Fuel	123	163	-40	-24.5%
Distillate Fuel Oil	178	310	-132	-42.5%
Total	10,816	11,804	-988	-8.4%
Exports				
Crude Oil	29	9	20	207.6%
Products	902	832	71	8.5%
Total	931	841	90	10.7%
Products Supplied				
Motor Gasoline	8,738	8,585	153	1.8%
Jet Fuel	1,602	1,541	61	4.0%
Distillate Fuel Oil	3,583	3,639	-56	-1.5%
Total	19,326	19,097	229	1.2%

Total	19,326	19,097	229	1.2%
			vs. Year Ago	
Stocks (Million Barrels)	9/27/2002	9/27/2001	Diff.	% Diff.
Crude Oil (excl. SPR)	275.2	309.1	-33.9	-11.0%
Motor Gasoline	208.4	204.2	4.2	2.1%
Jet Fuel	40.6	42.7	-2.1	-4.9%
Distillate Fuel Oil	130.1	126.3	3.8	3.0%
Total (excl. SPR)	994.4	1,030.2	-35.8	-3.5%



Source: Energy Information Administration, Weekly Petroleum Status Report, Petroleum Supply Monthly.

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Contact:

Doug MacIntyre

douglas.macintyre@eia.doe.gov

Phone: Doug MacIntyre : (202) 586-1831

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/latpet.html>

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World Oil Market Highlights

(updated October 8, 2002)

According to fourth quarter 2002 estimates, the world (excluding Iraq) holds around 5 million barrels per day of excess oil production capacity that could be brought online, almost all of which lies in OPEC countries.

OPEC Crude Oil Production ¹ (Thousand barrels per day)					
	3Q 2002 Production	4Q 2002 Production	1/01/02 Quota ²	2002 Production Capacity ³	4Q Surplus Capacity ³
Algeria	903	950	693	1,100	150
Indonesia	1,110	1,095	1,125	1,200	105
Iran	3,390	3,390	3,186	3,850	460
Kuwait ⁴	1,926	1,960	1,741	2,400	440
Libya	1,330	1,330	1,162	1,400	70
Nigeria	1,933	2,033	1,787	2,300	267
Qatar	640	640	562	850	170
Saudi Arabia ⁴	7,749	7,800	7,053	10,000-10,500	2,200-2,700
UAE ⁶	1,980	1,980	1,894	2,600	620
Venezuela ⁷	2,746	2,800	2,497	2,900	100
OPEC 10 Crude Oil Total	23,708	23,978	21,700	28,600-29,100⁵	4,622-5,122⁵
Iraq ⁸	1,742	1,765	N/A	3,050	1,285

OPEC Crude Oil Total	25,450	25,743	N/A	31,650-32,150⁵	5,907-6,407⁵
Other Liquids ⁹	2,751	2,751	N/A		
Total OPEC Production	28,201	28,495	N/A		

NA: Not Applicable

¹Crude oil does not include lease condensate or natural gas liquids.

²Quotas are based on crude oil production only.

³Maximum sustainable production capacity, defined as the maximum amount of production that: 1) could be brought online within a period of 30 days; and 2) sustained for at least 90 days.

⁴Kuwaiti and Saudi Arabian figures each include half of the production from the Neutral Zone between the two countries. Saudi Arabian production also includes oil produced from its offshore Abu Safa field on behalf of Bahrain.

⁵ Saudi Arabia is the only country with the capability to further increase its capacity significantly within 90 days. Saudi Arabia can increase its sustainable production capacity to 10 million barrels per day within 30 days and to 10.5 million barrels per day within 90 days. As a result, the estimates for Saudi Arabia are as shown as a range, with the lower figure using the 30 days' definition and the upper end reflecting Saudi Arabia's 90 days' capability. OPEC's surplus capacity estimates are also shown as a range for this reason.

⁶The UAE is a federation of seven emirates. The quota applies only to the emirate of Abu Dhabi, which controls the vast majority of the UAE's economic and resource wealth.

⁷Venezuelan capacity and production numbers exclude extra heavy crude oil used to produce Orimulsion.

⁸Iraqi oil exports are approved by the United Nations under the oil-for-food program for Iraq established by Security Council Resolution 986 (April 1995) and subsequent resolutions. As a result, Iraqi production and exports have not been a part of any recent OPEC agreements. Resolution 986 limited the sale of Iraqi crude oil over six-month periods to specified dollar amounts. However, the Security Council voted to remove any limits on the amount of oil Iraq could export in December 1999.

⁹Other liquids include lease condensate, natural gas liquids, and other liquids including volume gains from refinery processing.

Major Sources of U.S. Petroleum Imports, Jan.-May 2002*			
(all volumes in million barrels per day)			
	Total Oil Imports	Crude Oil Imports	Petroleum Product Imports
Canada	1.91	1.45	0.46
Saudi Arabia	1.52	1.50	0.02
Mexico	1.48	1.45	0.03
Venezuela	1.33	1.14	0.19
Iraq	0.70	0.70	0.00
Nigeria	0.54	0.51	0.03
United Kingdom	0.39	0.31	0.08
Norway	0.37	0.33	0.04
Algeria	0.32	0.04	0.28

Angola	0.32	0.31	0.01
Total Imports	11.15	8.86	2.29

** Table includes all countries from which the U.S. imported more than 300,000 barrels per day in Jan.-May 2002.*

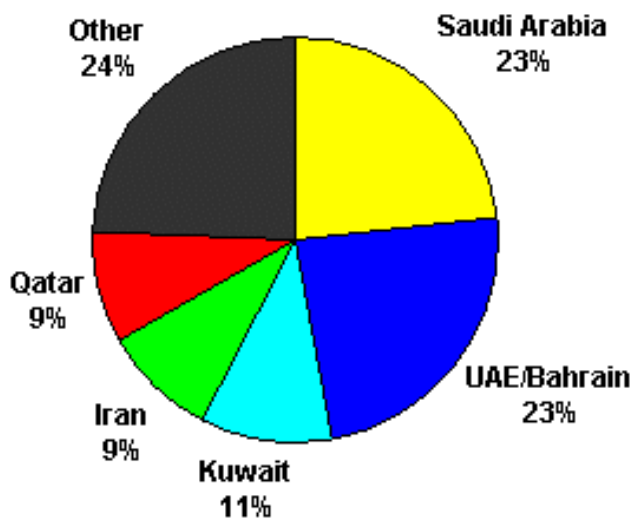
Top World Oil Net Exporters, Jan.-May 2002*		
	Country	Net Exports (million barrels per day)
1)	Saudi Arabia	6.64
2)	Russia	4.81
3)	Norway	3.18
4)	Iran	2.43
5)	Venezuela	2.34
6)	United Arab Emirates	1.92
7)	Nigeria	1.86
8)	Iraq	1.65
9)	Kuwait	1.60
10)	Mexico	1.67
11)	Algeria	1.21
12)	Libya	1.17

**Table includes all countries with net exports exceeding 1 million barrels per day in Jan.-May 2002.*

During the first five months of 2002, about half of U.S. crude oil imports came from the Western Hemisphere (17% from South America, 16% from Mexico, 15% from Canada, 2% from the Caribbean), while 27% came from the Persian Gulf region (17% from Saudi Arabia, 8% from Iraq, 2% from Kuwait).

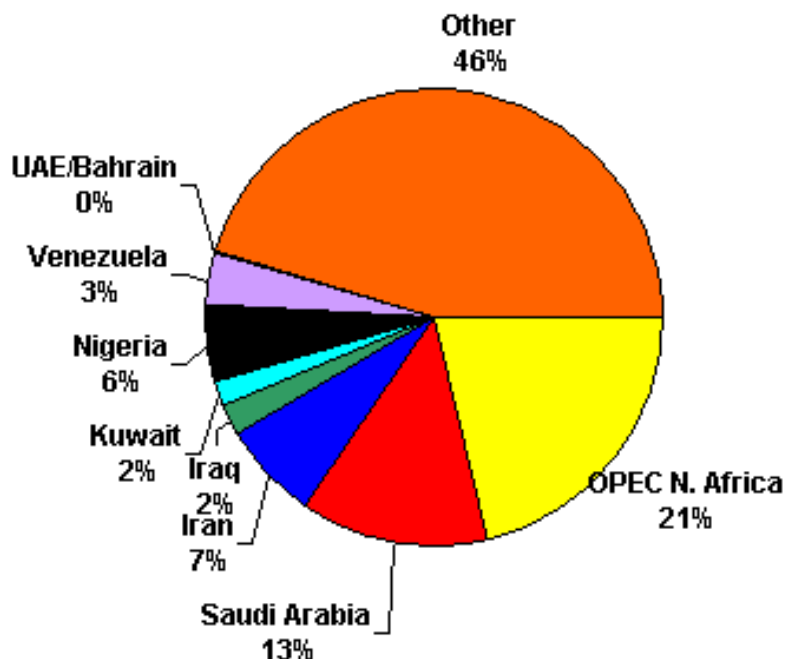
In general, OECD Europe depends far more heavily on the Persian Gulf and North Africa for oil imports than the United States. During the first quarter of 2002, about 25% of OECD Europe's net oil imports came from the Persian Gulf (mainly Saudi Arabia, Iran, Iraq, and Kuwait), around 28% from Africa (mainly Libya, Algeria, and Nigeria), and much of the remainder from Russia. Japan receives over three-quarters of its oil supplies from the Persian Gulf (mainly the UAE, Saudi Arabia, Kuwait, Iran, and Qatar) with the remainder coming from Indonesia, China, and other sources.

**Japanese Net Oil Imports by Country,
1Q 2002**



Total=5.53 million barrels per day

**OECD European Net Oil Imports
by Country, 1Q 2002**



Total=8.21 million barrels per day

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Contact:

Lowell Feld

lowell.feld@eia.doe.gov

Phone: Lowell Feld: (202) 586-9502

Fax: (202) 586-9753

URL: <http://www.eia.doe.gov/emeu/security/esar/esar.html>

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[Home](#) > [Energy Situation Analysis Report](#) > **Latest U.S. Weekly Natural Gas Information**

Latest U.S. Weekly Natural Gas Information

(updated October 8, 2002)

[Industry/Market Developments](#)

EIA Releases New Report on the Fundamentals of Natural Gas Storage: EIA prepared a new report to provide general background information about underground natural gas storage titled [The Basics of Underground Natural Gas Storage](#). The report, which was released on October 2, 2002, describes the different types of underground storage facilities, defines and clarifies key storage measurement terminology, summarizes categories of storage ownership and operation, and briefly discusses changing patterns of storage utilization. A key element of the report is its discussion of relative measures of gas inventories, which attempts to clarify the notion of "percent full" as applied to storage facilities.

[Storage](#)

Working gas in underground storage was 3,038 billion cubic feet (Bcf) for the week ended Friday, September 27, according to the EIA Weekly Natural Gas Storage Report. This is the earliest in the refill season that inventories have topped 3 trillion cubic feet (Tcf) in ten years. Stocks are also 10% greater than the previous 5-year (1997-2001) average for this date, and just under 4% greater than last year at this time. At this level, the nation's storage facilities are close to 76% full, based on EIA's estimate of total working gas capacity.

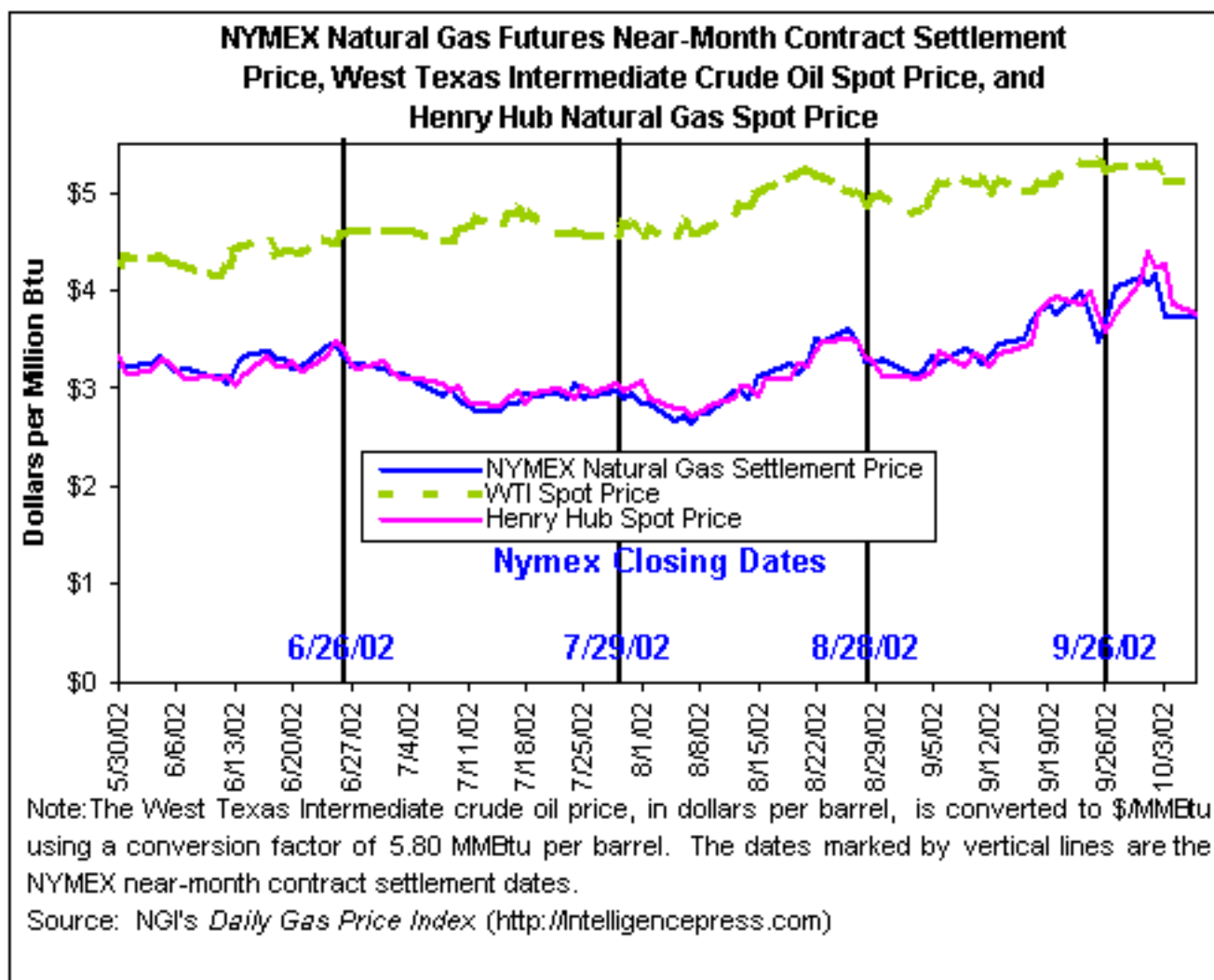
	Current Stocks 9/27/2002	Estimated Prior 5-Year (1997-2001) Average	Percent Difference from 5 Year Average	Implied Net Change from Last Week	One-Week Prior Stocks 9/20/2002
All Volumes in Bcf					
East Region	1,771	1,691	4.7%	39	1,732
West Region	400	343	16.6%	1	399
Producing Region	867	726	19.4%	7	860
Total Lower 48	3,038	2,761	10.0%	47	2,991

Source: Energy Information Administration: Form EIA-912, "Weekly Underground Natural Gas Storage Report," and the Historical Weekly Storage Estimates Database. Column and/or row sums may not equal totals due to independent rounding.

Prices:

Spot prices at most major market locations moved down yesterday (10/07/02) as production resumed in the Gulf of Mexico following last week's hurricane. The Department of Interior's Minerals Management Service (MMS) reported that almost 75% of the 9.9 Bcf /d of natural gas production curtailed on Friday in the Gulf was returned to operation yesterday. Spot prices at the Henry Hub returned to the pre-hurricane level of \$3.77 per million Btu (MMBtu) yesterday, while prices in Chicago and New York City moved down to \$3.75 and \$4.12 per MMBtu, respectively. These prices are down \$0.49 to \$0.82 per MMBtu, respectively, from October 1. In contrast, prices in California moved up over \$0.25 per MMBtu yesterday as warm temperatures brought about increased power demand.

On the NYMEX, yesterday's (10/07/02) daily settlement price of \$3.740 per MMBtu for the November contract was virtually unchanged from the previous day. This trading level represents a \$0.42 per MMBtu decline from the daily settlement price on Wednesday, October 2.



<i>Trade Date (All prices in \$ per MMBtu)</i>	California Composite Average Price*	Henry Hub	New York City	Chicago	NYMEX futures contract-November delivery	NYMEX futures contract-December delivery
9/10/02	3.12	3.35	3.62	3.36	3.734	3.930
9/11/02	3.13	3.32	3.60	3.35	3.645	3.995
9/12/02	3.11	3.22	3.49	3.23	3.720	4.110
9/13/02	3.22	3.36	3.59	3.33	3.842	4.121
9/16/02	3.36	3.44	3.80	3.45	3.866	4.205
9/17/02	3.39	3.46	3.80	3.44	3.977	4.275
9/18/02	3.57	3.79	4.16	3.80	4.070	4.284
9/19/02	3.65	3.89	4.19	3.90	4.106	4.177
9/20/02	3.51	3.94	4.27	3.85	3.992	4.342
9/23/02	3.64	3.87	4.19	3.80	4.175	4.124
9/24/02	3.63	3.98	4.42	3.86	3.929	4.028
9/25/02	3.32	3.75	4.21	3.56	3.793	4.124
9/26/02	3.28	3.59	3.95	3.46	3.889	4.028
9/27/02	3.26	3.76	4.02	3.57	4.041	4.245
9/30/02	3.59	4.09	4.48	4.04	4.138	4.323
10/1/02	3.75	4.38	4.94	4.24	4.067	4.240
10/2/02	3.55	4.24	5.00	4.00	4.160	4.315
10/3/02	3.40	4.26	4.97	3.97	3.724	3.959
10/4/02	3.07	3.85	4.16	3.68	3.739	3.969
10/7/02	3.33	3.77	4.12	3.75	3.740	3.990

* Average of NGI's reported average prices for: Malin, PG&E citygate, and Southern California Border Average.

Source: NGI's Daily Gas Price Index (<http://intelligencepress.com>)

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Contact:

Jim Thompson

james.thompson@eia.doe.gov

Phone: Jim Thompson : (202) 586-6201

Fax: (202) 586-4420

URL: <http://www.eia.doe.gov/emeu/security/esar/latng.html>

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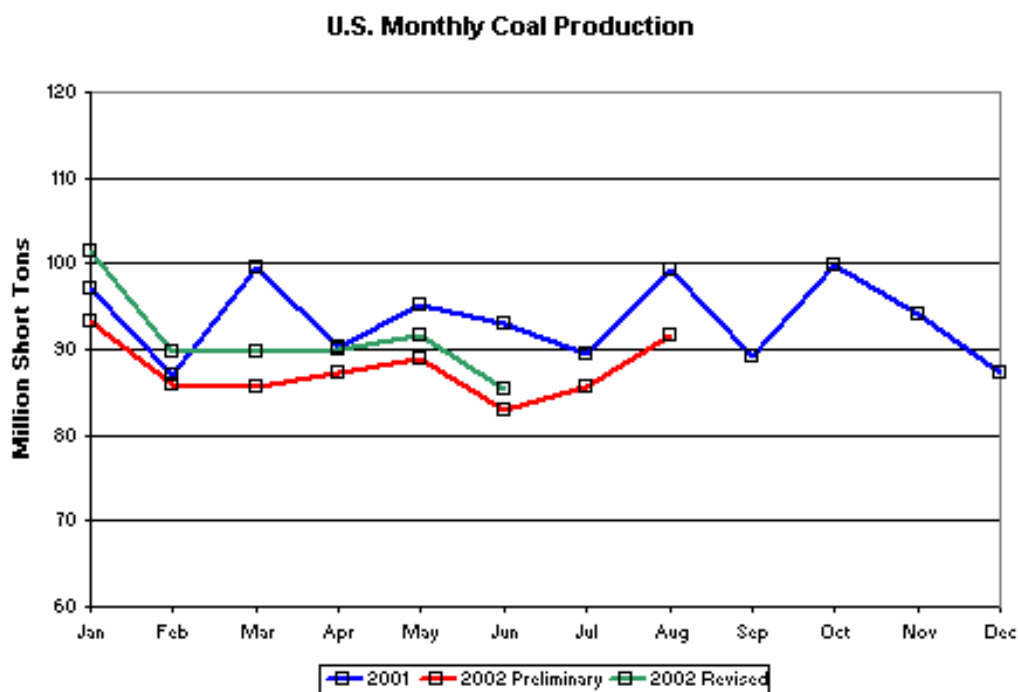
wmaster@eia.doe.gov

Latest U.S. Coal Information

(updated October 8, 2002)

Coal Production

For the week ended September 28, rail car loadings of coal were 3.0% lower while national [coal production](#) was 3.6% lower, compared to year-ago levels. Year-to-date, estimated western U.S. coal production is 0.5% below the levels of a year ago, whereas eastern U.S. coal production is estimated to be 6.1% below last year's level. The revised production for the first 8 months of 2002 is 725.2 million short tons (mst), 3.4% lower than the 750.7 mst in the first 8 months of 2001. The revised estimate has been updated using Mine Safety and Health Administration coal production survey data for the second quarter 2002.



Coal production has been lower than in 2001 ever since the first quarter of 2002. Large coal stockpiles accumulated at mines and at consuming facilities due to slow economic activity and an extended period of seasonally low demand last spring at electric power plants. Hot weather since July has spurred more normal consumption but ate into only part of the high consumer stocks. EIA estimated that coal stockpiled in the electric power sector at the end of March was 29.5% higher than in March 2001, and that by May 2002 stockpiled coal was 18.2% higher than 12 months earlier. In the first and second quarters of 2002 coal production exceeded coal use. Since March, a greater-than-usual portion of coal shipments were loaded from previously mined production.

Would-be buyers have found coal producers generally unwilling to commit beyond existing contracts at current prices. With some eastern mines still off line, supplies of eastern compliance coal have reportedly been tight and most buyers,

with still a stockpile cushion, have delayed buys. Citing the high capital costs of opening new coal mines, Consol Energy disclosed on September 24 that the company does not intend to invest in new mines until contract coal prices in Appalachia go above \$30 per short ton and buyers are willing to commit to contracts longer than 2 or 3 years (Energy Argus Coal Daily, September 26). .

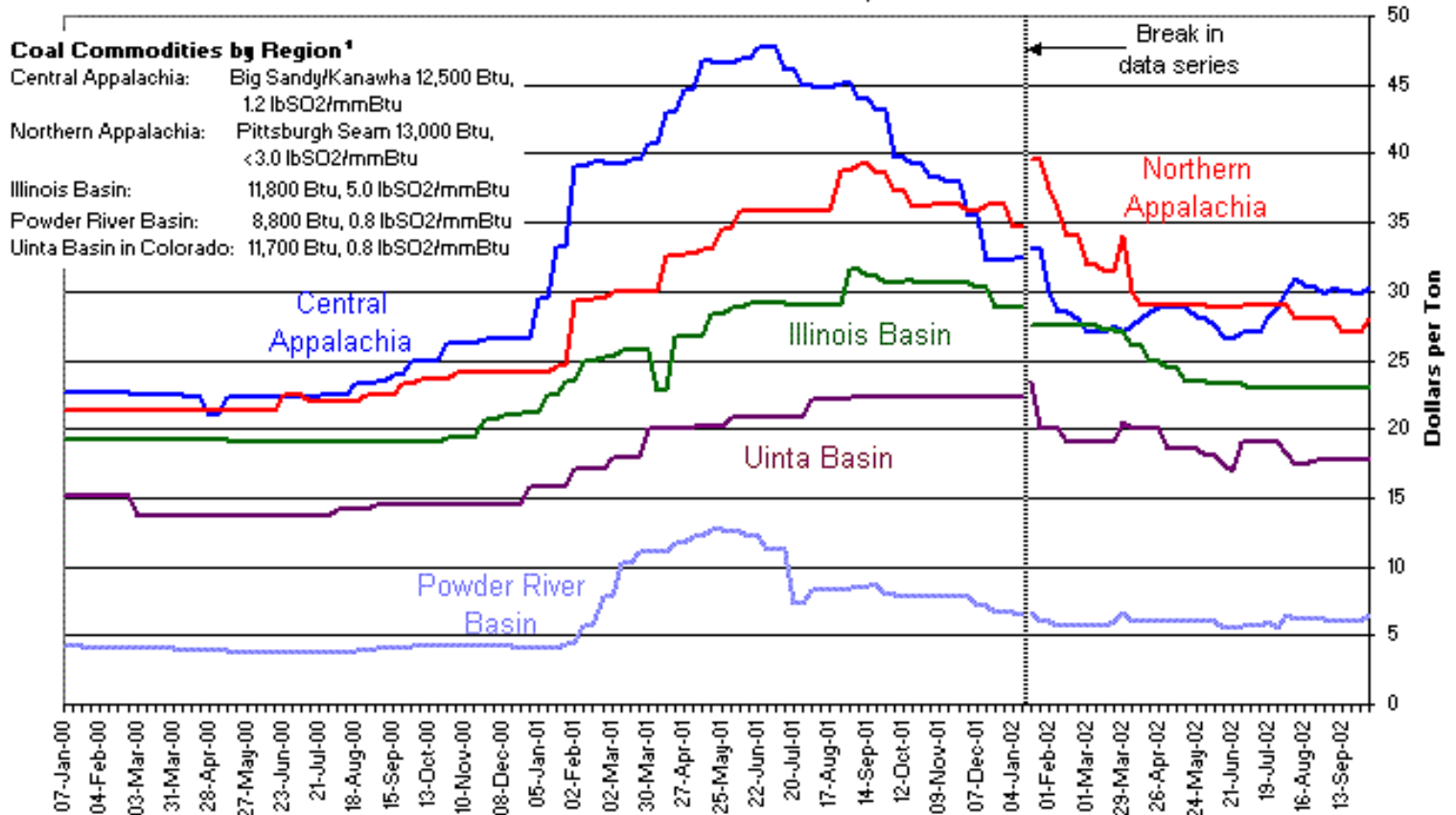
EIA believes that stock rundowns have now reduced coal on the ground at mines and coal yards to near-normal levels and that summer consumption at power plants has made a significant dent in coal on hand in that, the leading coal consuming sector. With coal supplies at or a bit above normal, however, most buyers are still sitting tight and putting off major coal purchases. The notable exception is the Tennessee Valley Authority (TVA), which recently took bids for up to 3.7 million short tons. Many interested parties are awaiting word of the prices TVA will pay for the wide-ranging types of coals it solicited (bids were due September 26). TVA has entered the market at a time when many producers may be ready to deal in return for some firm contracts or simply some cash flow. Meanwhile, producers who can may hold out for better prices in hopes of a cold winter (Platts Coal Outlook, Sept. 30, p.3).

Coal Prices

The spot coal prices tracked by EIA strengthened slightly for the week ended October 4, after three weeks of stagnation (graph below). The lack of life in coal markets recently reflects the continuing uncertainty over the direction of coal prices.

Compared to peak prices in summer 2001, Central and Northern Appalachian coal prices are down by about \$17.00 and \$11.00 per short ton, respectively. Compared to the previous floor in the summer of 2000, prior to the 2001 escalation, the latest indexed spot prices of \$30.25 per short ton for Central Appalachian and \$28.00 per short ton for Northern Appalachian coal are higher by 37% and 29% respectively. Other prices are also running higher than the summer 2000 base: by 30% for the Uinta Basin, 20% for the Illinois Basin, and 73% for the Powder River Basin.

Average Weekly Coal Commodity Spot Prices Week Ended October 4, 2002



¹Prior to January 11, 2002, EIA averaged 12-month "forward" spot prices for several coal specifications; after that date, coal prices shown are for a relatively high-Btu coal selected in each region, for delivery in the "prompt" quarter. The "prompt quarter" is the next calendar quarter, with quarters shifting forward after the 15th of the month preceding each quarter's end.

Source: with permission, selected from listed prices in Platts Coal Outlook, "Weekly Price Survey"

Over-the-counter (OTC) trading volumes on the [NYMEX](#) throughout the month of September were the lowest since the market initiated trade in coal July 2001. The past week saw limited activity, with the number of trades in single digits, for several delivery dates. Offered prices for November 2002 deliveries settled at \$27.40 with 2003 delivery prices ranging from \$29.35 in January to \$30.00 in July through September.

Market Trends

Speaking September 23 at the Platts Coal Marketing Days symposium in Pittsburgh, fuel buyers for three large energy conglomerates described their view of recent coal market trends. At least for large coal purchasing entities, big players have gained "economies of scale" in their coal purchases during 2002. Tom Mason of Cinergy reported that the advantages cut both ways—there are fewer but larger coal companies and there are larger energy/electricity producers. The "market clout of utilities has been offset by market clout of coal companies," he said. At least that was the case in 2000 and 2001. In 2002, however, the utilities gained the advantage. He expects 2003 to be "a dead heat" (Platts Coal Trader, September 24, 2002).

Although this is good, for now, for large coal purchasers, the outlook is complicated. It is not clear that smaller coal purchasers have been able to find similarly low coal prices, as average forward prices continue relatively level and reported purchasing activity is restrained. Following lower electricity demand, even NRG Energy, the third largest independent U.S. power producer, is experiencing credit problems and is limiting coal purchases to "just in time" as opposed to "just in case." Meanwhile, coal purchasers who can are keeping or building above-average inventories in

anticipation of a cold winter and possible coal strikes in the East. Much of the trading that is getting done is said to be by old-fashioned direct contact rather than the internet-based e-trading that was on the rise until this year.

For the time being, coal producers continue to keep some capacity offline to stabilize prices, while coal-consumers plan for continuing diminished demand. The outlook for delayed growth in electricity demand is reflected in EIA's figures for electricity generation capacity additions: 37.0 gigawatts delayed past 2002 and 5.5 gigawatts canceled (<http://www.eia.doe.gov/cneaf/electricity/page/capacity/capacity.html>). While most of the planned capacity was natural gas-fired, coal-fired plants do not show up because they are longer-term projects.

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Contact:

Bill Watson and Rich Bonskowski

william.watson@eia.doe.gov

richard.bonskowski@eia.doe.gov

Phone: Bill Watson: 202-287-1971; Rich Bonskowski: 202-287-1725

Fax: 202-287-1934

URL: <http://www.eia.doe.gov/emeu/security/esar/latcl.html>

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Latest U.S. Electricity Information

(updated October 8, 2002)

Selected Wholesale Electricity Prices: In California, warmer temperatures and seasonal maintenance for many of the State's power plants caused prices to increase over the past two days. Heavier loads are expected at NP-15 and SP-15. Prices at these two trading centers increased about 11% from October 3 to October 7, 2002.

In the Northwest, prices decreased on October 3, 2002 as lower temperatures led to a decrease in demand. At the California-Oregon Border, prices went down by almost 6% to \$29.50 per megawatthour. However, two days later prices went up almost the same percentage to \$31.16 per megawatthour due to low supplies at hydroelectric dams. Supplies were expected to increase and stabilize prices.

Southeast spot electricity prices decreased 30% from the 7-day high of \$44.39 per megawatthour on October 3 to \$30.90 per megawatthour on October 7, 2002. The Bloomberg Power Lines reports explained that the decrease was due to cooler weather forecasted for next week, "declining natural gas values and increased generation as several units resumed production." However, the same report said that prices in the Electricity Reliability Council of Texas increased on October 7 because of "ongoing unit maintenance in Texas and concerns about damaged U.S. Gulf Coast natural gas production rigs."

In the Midwest, cooler weather and lower demand caused prices to decrease 42%. Spot electricity prices reached a high of \$43.32 per megawatthour on October 1 and a low of \$24.96 per megawatthour on October 7, 2002.

At PJM West, prices continued to decline with cooler weather and lower demand. Prices decreased 46% from \$55.96 per megawatthour on October 1 to \$30.00 per megawatthour on October 7, 2002. According to the Bloomberg Power Lines report, nuclear power plants increased their capacity factor over the weekend. Nepoch's and New York Zone J's prices fluctuated more than prices at PJM West. At Nepoch, prices increased on October 4 but decreased on October 7, and New York Zone J's prices decreased on October 4 but increased on October 7, 2002.

Over the past seven days, the average price at all trading centers has ranged between \$34.41 and \$39.52 per megawatthour.

U.S. Regional Electricity Prices at Major Trading Centers (Dollars per megawatthour)

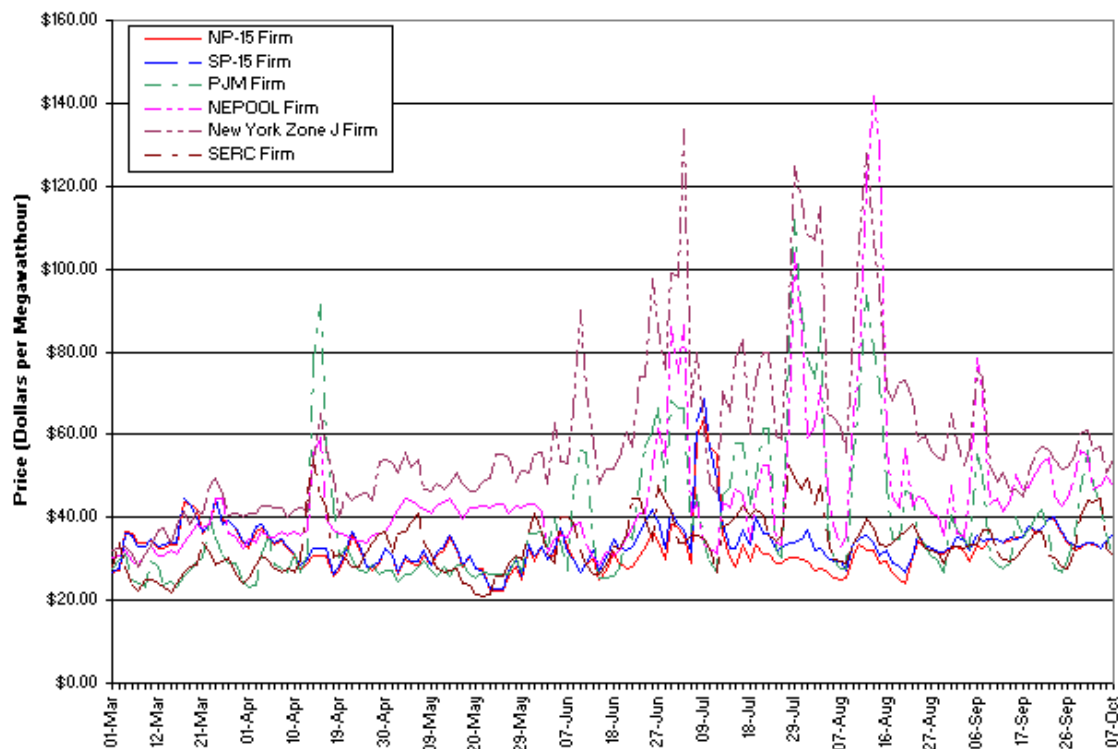
Trading Centers	Date							Price Range		
	9/27/02	9/30/02	10/1/02	10/2/02	10/3/02	10/4/02	10/7/02	Max	Min	Average
COB	27.25	29.50	30.00	31.25	29.50	30.25	31.16	31.25	27.25	29.43
Palo Verde	30.55	29.82	29.01	29.36	29.23	30.79	33.32	33.32	29.01	30.10
Mid-Columbia	25.70	26.41	28.71	28.84	26.99	27.99	27.21	28.84	25.70	27.20
Mead/Marketplace	32.43	30.96	29.93	31.06	30.03	31.40	33.88	33.88	29.93	31.30
4 Corners	28.31	28.50	29.25	28.79	28.41	30.50	32.44	32.44	28.31	29.03
NP 15	32.29	32.65	33.87	33.62	32.44	34.44	35.96	35.96	32.29	33.30
SP 15	32.87	32.94	34.02	33.74	32.38	34.18	36.12	36.12	32.38	33.48
PJM West	35.58	46.84	55.96	47.96	42.97	35.92	30.00	55.96	30.00	42.16
NEPOOL	50.00	56.00	54.96	46.67	47.75	49.88	47.50	56.00	46.67	49.97
New York Zone J	55.00	60.00	61.00	56.00	57.00	51.00	54.00	61.00	51.00	56.00
Cinergy	30.91	42.61	43.32	39.56	37.78	29.79	24.96	43.32	24.96	34.92
SERC	32.05	40.12	44.20	43.84	44.39	32.66	30.90	44.39	30.90	37.83
Average Price	34.41	38.03	39.52	37.56	36.57	34.90	34.79	39.52	34.41	36.23

Sources: COB, Palo Verde, Mid-Columbia, Mead/Market Place, Four Corners, NP-15, SP-15, PJM-West, NEPOOL, New York Zone J, Cinergy, and SERC trading centers. Used with permission from Bloomberg L.P. (www.bloomberg.com).

COB: Average price of electricity traded at the California-Oregon and Nevada-Oregon Borders.
Palo Verde: Average price of electricity traded at Palo Verde and the West Wing, Arizona.
Mid-Columbia: Average price of electricity traded at Mid-Columbia.
Mead/Market Place: Average price of electricity traded at Mead Market Place, McCullough and Eldorado.
Four Corners: Average price of electricity traded at Four Corners, Shiprock, and San Juan, New Mexico.
NP-15: Average price of electricity traded at NP-15.
SP 15: Average price of electricity traded at SP 15.

NP-15:	Average price of electricity traded at NP-15.
SP-15:	Average price of electricity traded at SP-15.
PJM-West:	Average price of electricity traded at PJM Western hub.
NEPOOL	Average price of electricity traded at Nepoch.
New York Zone J:	Average price of electricity traded at the New York Zone J - New York City.
Cinergy:	Average price of electricity traded into the Cinergy control area.
SERC:	Average price of electricity traded into the Southeastern Electric Reliability Council.

Average Wholesale Electricity Prices in the U.S.



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Contact:

William Liggett

william.liggett@eia.doe.gov

Phone: William Liggett: (202) 287-1727

Fax: (202) 287-1934

URL: <http://www.eia.doe.gov/emeu/security/esar/latel.html>

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